COLUMBUS MCKINNON CORP
Form 10-Q
January 31, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT 1934

For the quarterly period ended December 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission File Number: 0-27618

Columbus McKinnon Corporation
(Exact name of registrant as specified in its charter)

New York	16-0547600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
205 Crosspoint Parkway, Getzville, NY	14068
(Address of principal executive offices)	(Zip code)

(716) 689-5400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. : ý Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o
Non-accelerated filer o Smaller reporting company o
Emerging growth company o

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ý No

The number of shares of common stock outstanding as of January 28, 2019 was: 23,354,873 shares.

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COLUMBUS McKINNON CORPORATION
December 31, 2018

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Part I. Financial Information
Item 1. Condensed Consolidated Financial Statements (Unaudited)

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018 (unaudited)	March 31, 2018
	(In thousands)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$58,079	$63,021
Trade accounts receivable	123,411	127,806
Inventories	149,716	152,886
Prepaid expenses and other	16,577	16,582
Total current assets	347,783	360,295
Property, plant, and equipment, net	88,656	113,079
Goodwill	326,851	347,434
Other intangibles, net	239,452	263,764
Marketable securities	6,951	7,673
Deferred taxes on income	32,668	32,442
Other assets	20,163	17,759
Total assets	$1,062,524	$1,142,446
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Trade accounts payable	$39,725	$46,970
Accrued liabilities	95,494	99,963
Current portion of long term debt	60,038	60,064
Total current liabilities	195,257	206,997
Senior debt, less current portion	—	33
Term loan and revolving credit facility	254,795	303,221
Other non current liabilities	192,041	223,966
Total liabilities	642,093	734,217
Shareholders' equity:		
Voting common stock; 50,000,000 shares authorized; 23,353,253 and 23,045,479 shares issued and outstanding	234	230
Additional paid in capital	275,750	269,360
Retained earnings	219,289	197,897
Accumulated other comprehensive loss	(74,842)	(59,258)
Total shareholders' equity	420,431	408,229
Total liabilities and shareholders' equity	$1,062,524	$1,142,446

See accompanying notes.

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands, except per share data)			
Net sales	$217,415	$ 208,725	$659,549	$ 625,279
Cost of products sold	144,010	140,029	430,597	416,257
Gross profit	73,405	68,696	228,952	209,022
Selling expenses	23,858	25,467	73,940	74,309
General and administrative expenses	20,379	22,318	61,893	60,704
Research and development expenses	3,271	3,293	10,137	9,938
Net loss on held for sale businesses	15,550	—	26,650	—
Amortization of intangibles	3,701	3,908	11,358	11,547
	66,759	54,986	183,978	156,498
Income from operations	6,646	13,710	44,974	52,524
Interest and debt expense	4,330	4,864	13,185	15,072
Investment (income) loss	82	(53)	(297)	(161)
Foreign currency exchange (gain) loss	(25)	312	206	705
Other (income) expense, net	(70)	(725)	(417)	(1,713)
Income before income tax expense	2,329	9,312	32,297	38,621
Income tax expense	3,111	19,877	9,461	25,022
Net income (loss)	(782)	(10,565)	22,836	13,599
Dividends declared	(1,168)	(920)	(2,332)	(1,830)
Change in accounting principle	—		888	—
Retained earnings - beginning of period	221,239	202,989	197,897	179,735
Retained earnings - end of period	$219,289	$ 191,504	$219,289	$ 191,504
Average basic shares outstanding	23,348	23,007	23,245	22,778
Average diluted shares outstanding	23,348	23,007	23,647	23,203
Basic income (loss) per share:	$(0.03)	$ (0.46)	$0.98	$ 0.60
Diluted income (loss) per share:	$(0.03)	$ (0.46)	$0.97	$ 0.59
Dividends declared per common share	$0.05	$ 0.04	$0.10	$ 0.08

See accompanying notes.

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands)			
Net income (loss)	$(782)	$ (10,565)	$22,836	$ 13,599
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2,236)	2,124	(14,802)	16,154
Change in derivatives qualifying as hedges, net of taxes of $(30), $(108), $206, $(734)	89	323	(619)	2,201
Change in pension liability and postretirement obligation, net of taxes of $(30), $(2,713), $(249), $(1,995)	86	4,427	725	3,255
Adjustments for unrealized gain (loss) on investments (See Note 6):				
Unrealized holding gain (loss) arising during the period, net of taxes of $0, $(44), $0, $(145)	—	81	—	270
Net change in unrealized gain (loss) on investments	—	81	—	270
Total other comprehensive income (loss)	(2,061)	6,955	(14,696)	21,880
Comprehensive income (loss)	$(2,843)	$ (3,610)	$8,140	$ 35,479

See accompanying notes.

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)

	Common Stock ($0.01 par value)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2018	$230	$269,360	$197,897	$(59,258)	$408,229
Net income	—	—	7,706	—	7,706
Dividends declared	—	—	—	—	—
Change in foreign currency translation adjustment	—	—	—	(11,246)	(11,246)
Change in net unrealized gain on investments	—	—	—	(888)	(888)
Change in derivatives qualifying as hedges, net of tax of $55	—	—	—	(165)	(165)
Change in pension liability and postretirement obligations, net of tax of $(211)	—	—	—	613	613
Stock options exercised, 161,912 shares	2	3,639	—	—	3,641
Stock compensation expense	—	1,334	—	—	1,334
Restricted stock units released, 14,410 shares, net of shares withheld for minimum statutory tax obligation	—	(544)	—	—	(544)
Change in accounting principle	—	—	888	—	888
Balance at June 30, 2018	$232	$273,789	$206,491	$(70,944)	$409,568
Net income	—	—	15,912	—	15,912
Dividends declared	—	—	(1,164)	—	(1,164)
Change in foreign currency translation adjustment	—	—	—	(1,320)	(1,320)
Change in derivatives qualifying as hedges, net of tax of $182	—	—	—	(543)	(543)
Change in pension liability and postretirement obligations, net of tax of $(9)	—	—	—	26	26
Stock compensation - directors	—	210	—	—	210
Stock options exercised, 3,896 shares	—	67	—	—	67
Stock compensation expense	—	1,550	—	—	1,550
Restricted stock units released, 434 shares, net of shares withheld for minimum statutory tax obligation	1	(22)	—	—	(21)
Balance at September 30, 2018	$233	$275,594	$221,239	$(72,781)	$424,285
Net income (loss)	—	—	(782)	—	(782)
Dividends declared	—	—	(1,168)	—	(1,168)
Change in foreign currency translation adjustment	—	—	—	(2,236)	(2,236)
Change in derivatives qualifying as hedges, net of tax of $(30)	—	—	—	89	89
Change in pension liability and postretirement obligations, net of tax of $(30)	—	—	—	86	86
Stock compensation - directors	—	110	—	—	110
Stock compensation expense	—	1,421	—	—	1,421
Restricted stock units released, 35,469 shares, net of shares withheld for minimum statutory tax obligation	1	(1,375)	—	—	(1,374)

Balance at December 31, 2018	$234	$275,750	$219,289	$ (74,842)	$ 420,431

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	(In thousands, except share data)				
	Common Stock ($0.01 par value)	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2017	$226	$258,853	$179,735	$ (97,464)	$ 341,350
Net income	—	—	11,656	—	11,656
Dividends declared	—	—	—	—	—
Change in foreign currency translation adjustment	—	—	—	9,117	9,117
Change in net unrealized gain on investments, net of tax of $(25)	—	—	—	94	94
Change in derivatives qualifying as hedges, net of tax of $(522)	—	—	—	1,964	1,964
Change in pension liability and postretirement obligations, net of tax of $279	—	—	—	(1,049)	(1,049)
Stock options exercised, 1,244 shares		29	—	—	29
Stock compensation expense	—	1,069	—	—	1,069
Restricted stock units released, 31,326 shares, net of shares withheld for minimum statutory tax obligation	—	(254)	—	—	(254)
Balance at June 30, 2017	$226	$259,697	$191,391	$ (87,338)	$ 363,976
Net income	—	—	12,508	—	12,508
Dividends declared	—	—	(910)	—	(910)
Change in foreign currency translation adjustment	—	—	—	4,913	4,913
Change in net unrealized gain on investments, net of tax of $(49)	—	—	—	95	95
Change in derivatives qualifying as hedges, net of tax of $44	—	—	—	(86)	(86)
Change in pension liability and postretirement obligations, net of tax of $63	—	—	—	(123)	(123)
Stock compensation - directors	—	210	—	—	210
Stock options exercised, 323,207 shares	3	5,562	—	—	5,565
Stock compensation expense	—	1,667	—	—	1,667
Restricted stock units released, 73,404 shares, net of shares withheld for minimum statutory tax obligation	1	(1,017)	—	—	(1,016)
Balance at September 30, 2017	$230	$266,119	$202,989	$ (82,539)	$ 386,799
Net income	—	—	(10,565)	—	(10,565)
Dividends declared	—	—	(920)	—	(920)
Change in foreign currency translation adjustment	—	—	—	2,124	2,124
Change in net unrealized gain on investments, net of tax of $(44)	—	—	—	81	81
Change in derivatives qualifying as hedges, net of tax of $(108)	—	—	—	323	323
Change in pension liability and postretirement obligations, net of tax of $(2,713)	—	—	—	4,427	4,427

Stock compensation - directors	—	110	—	—	110
Stock options exercised, 18,614 shares		366	—	—	366
Stock compensation expense	—	1,211	—	—	1,211
Restricted stock units released, 1,895 shares, net of shares withheld for minimum statutory tax obligation	—	17	—	—	17
Other	—	(10)	—	—	(10)
Balance at December 31, 2017	$230	$267,813	$191,504	$ (75,584)	$ 383,963

See accompanying notes.

COLUMBUS McKINNON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended	
	December 31, 2018	December 31, 2017
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$22,836	$ 13,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,763	26,873
Deferred income taxes and related valuation allowance	(2,353)	20,141
Net loss (gain) on sale of real estate, investments and other	109	(10)
Stock based compensation	4,625	4,267
Amortization of deferred financing costs and discount on debt	1,992	2,009
Net loss on held for sale businesses	26,650	—
Changes in operating assets and liabilities, net of effects of business acquisitions and divestitures:		
Trade accounts receivable	(1,407)	(6,516)
Inventories	(13,043)	(6,456)
Prepaid expenses and other	(103)	(130)
Other assets	232	2,803
Trade accounts payable	(5,330)	389
Accrued liabilities	3,558	5,388
Non-current liabilities	(8,733)	(11,114)
Net cash provided by operating activities	53,796	51,243
INVESTING ACTIVITIES:		
Proceeds from sales of marketable securities	1,238	653
Purchases of marketable securities	(835)	(109)
Capital expenditures	(7,236)	(9,384)
Proceeds from sale of real estate	176	—
Net proceeds from the sale of business (see note 2)	5,103	—
Net payments to former STAHL owner	—	(14,750)
Payment of restricted cash to former owner (see note 2)	(294)	(294)
Cash paid for purchase of equity investment	—	(3,359)
Net cash used for investing activities	(1,848)	(27,243)
FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	3,708	5,961
Repayment of debt	(50,051)	(45,050)
Payment of dividends	(3,484)	(2,737)
Other	(1,941)	(1,255)
Net cash used for financing activities	(51,768)	(43,081)
Effect of exchange rate changes on cash	(5,416)	5,795
Net change in cash and cash equivalents	(5,236)	(13,286)
Cash, cash equivalents, and restricted cash at beginning of year	63,565	78,428
Cash, cash equivalents, and restricted cash at end of period	$58,329	$ 65,142

Supplementary cash flow data:		
Interest paid	$11,121	$ 14,317
Income taxes paid (refunded), net	$3,982	$ 531

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
December 31, 2018

1. Description of Business

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of Columbus McKinnon Corporation (the Company) at December 31, 2018, the results of its operations for the three and nine month periods ended December 31, 2018 and December 31, 2017, and cash flows for the nine months ended December 31, 2018 and December 31, 2017, have been included. Results for the period ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending March 31, 2019. The balance sheet at March 31, 2018 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Columbus McKinnon Corporation annual report on Form 10-K for the year ended March 31, 2018.

The Company is a leading global designer, manufacturer and marketer of hoists, actuators, rigging tools, digital power control systems, and other material handling products, which efficiently and safely move, lift, position, and secure materials. Key products include hoists, rigging tools, crane components, actuators, digital power control and delivery systems, elevator application drive systems, and explosion-protected hoists.

The Company’s material handling products are sold globally, principally to third party distributors through diverse distribution channels, and to a lesser extent directly to end-users. During the three and nine month periods ended December 31, 2018, approximately 53% and 54% of sales, respectively, were to customers in the United States.

2. Acquisitions and Disposals

On July 15, 2016, the Company purchased 100% of the assets of Ergomatic Products LLC ("Ergomatic"), a designer and manufacturer of ergonomic lift assists, articulating arms, torque tubes, and pneumatic control systems for material handling and tool suspension applications. In connection with the acquisition of Ergomatic, the Company withheld $588,000 to be paid to the seller upon satisfaction of certain conditions. The amounts withheld were classified as restricted cash at that time. Of this amount, $294,000 was paid to the seller in July 2017 and the remaining $294,000 was paid in July 2018.

As part of our business strategy, Blueprint for Growth, in the first quarter of fiscal 2019 the Company started the process to sell its Tire Shredder business, its crane builder business, Crane Equipment and Service Inc., and Stahlhammer Bommern GmbH, its European forging business acquired in 2014 (the "Held for Sale Businesses") as they are no longer considered part of the core business or a strategic fit with the Company's long-term growth and operational objectives. On December 28, 2018, the Company sold its Tire Shredder business and recognized a gain, described below. During the quarter ended December 31, 2018, the Company continued to actively pursue the sale of the remaining two Held for Sale Businesses and expects the sale of each business to occur in fiscal 2019. As such, the businesses continue to meet the criteria as being held for sale as of December 31, 2018 in accordance with Accounting Standards Codification (“ASC”) 360-10-45-9, "Property, Plant, and Equipment." The businesses are not deemed significant to be considered discontinued operations.

When businesses or assets groups meet the criteria as held for sale, they are recorded at the lesser of their carrying value or fair value less cost to sell. The Company recognized a gain on the sale of its Tire Shredder business in the amount of $1,103,000 during the three months ended December 31, 2018. An impairment loss has been recorded on the remaining held for sale businesses in the amount of $27,753,000 during the nine months ended December 31, 2018, of which $16,653,000 was recorded during the three months ended December 31, 2018. The third quarter impairment loss of $16,653,000 included a $9,835,000 reduction to property, plant, and equipment and a $6,818,000 reduction to inventory. Both the gain and impairment loss were recorded in Net loss on held for sale businesses on the Condensed Consolidated Statements of Operations and Retained Earnings. The impairment loss was recognized to reduce the carrying value of the two remaining held for sale businesses to their current fair values less estimated costs to sell. The amount of the loss was determined based on the fair value calculation described in Note 4. The Company will continue to update the analysis each reporting period as additional information becomes available. Additionally, net sales and pre-tax income for the three Held for Sale Businesses was $8,983,000 and $29,320,000 and $990,000 and $3,106,000 for the three and nine months ended December 31, 2018 and $9,178,000 and $27,824,000 and $(61,000) and $388,000 for the three and nine months ended December 31, 2017, respectively.

The following table represents the carrying amounts of the two businesses classified as held for sale before impairment (in thousands):

	December 31, 2018 (unaudited)
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 362
Trade accounts receivable	1,796
Inventories	11,084
Prepaid expenses and other	57
Total current assets	13,299
Property, plant, and equipment, net	13,793
Goodwill	7,304
Other intangibles, net	1,810
Deferred taxes on income	211
Total assets	$ 36,417
LIABILITIES AND SHAREHOLDER'S EQUITY:	
Current liabilities:	
Trade accounts payable	$ 929
Accrued liabilities	1,533
Total current liabilities	2,462
Other non current liabilities	1,932
Total liabilities	4,394
Total shareholder's equity	32,023
Total liabilities and shareholder's equity	$ 36,417

Additionally as part of the business strategy, the Company announced on October 26, 2018 that it plans to consolidate its hoist manufacturing facility in Salem, Ohio into the Lisbon, Ohio and Wadesboro, NC facilities early in fiscal 2020. $200,000 is included in Cost of Products sold on the Condensed Consolidated Statements of Operations and Retained Earnings during the three months ended December 31, 2018 related to the plant closure.

3. Revenue Recognition

Transition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606) (“ASC 606”). ASC 606 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASC 606 requires the recognition of revenue when control transfers under the terms of the contract to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard became effective for the Company on April 1, 2018. As part of the adoption of ASC 606, the Company applied the new standard using the modified retrospective method to contracts not completed at the date of adoption and prior period results have not been retrospectively adjusted to give effect to the adoption of ASC 606. The adoption of this standard did not have a material impact on the timing or amount of revenue or costs recognized by the Company, therefore no cumulative effect or catch up adjustment to the opening balance of retained earnings was recorded. Further, disclosures of what our revenues and costs would have been for the three and nine months ended December 31, 2018 under legacy U.S. GAAP have not been disclosed as there are no material differences between the reported results under the new standard and those that would have been reported under legacy U.S. GAAP.

The core principle under ASC 606 is for revenue to be recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration we expect to receive in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps:

1) Identifying contracts with customers

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the related payment terms, (ii) the contract has commercial substance, and (iii) the Company determines that collection of substantially all consideration for goods and services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods and services, the Company must apply judgment to determine whether promised goods and services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products and services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company’s judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period for any changes. In applying this guidance, the Company also considers whether any significant financing components exist.

4) Allocate the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct service that forms part of a single performance obligation.

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company determines whether it satisfies performance obligations either over time or at a point in time. Revenue is recognized over time if either 1) the customer simultaneously receives and consumes the benefits provided by the entity's performance, 2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. If the entity does not satisfy a performance obligation over time, the related performance obligation is satisfied at a point in time by transferring the control of a promised good or service to a customer. Examples of control are using the asset to produce goods or services, enhancing the value of other assets, settling liabilities, and holding or selling the asset. For over time recognition, ASC 606 requires the Company to select a single revenue recognition method for the performance obligation that faithfully depicts the Company's performance in transferring control of the goods and services. The guidance allows entities to choose between either an input method or an output method to measure progress toward complete satisfaction of a performance obligation.

Performance obligations

The Company has contracts with customers for standard products and custom engineered products and determines when and how to recognize revenue for each performance obligation based on the nature and type of contract following the five steps above.

Revenue from contracts with customers for standard products is recognized when legal title and significant risk and rewards has transferred to the customer, which is generally at the time of shipment. This is the point in time when control is deemed to transfer to the customer. The Company sells standard products to customers utilizing purchase orders. Payment terms for these types of contracts generally require payment within 30-60 days. Each standard product is deemed to be a single performance obligation and the amount of revenue recognized is based on the negotiated price. The transaction price for standard products is based on the price reflected in each purchase order. Sales incentives are offered to customers who purchase standard products and include offers such as volume-based discounts, rebates for priority customers, and discounts for early cash payments. These sales incentives are accounted for as variable consideration included in the transaction price. Accordingly, the Company reduces revenue for these incentives in the period which the sale occurs and is based on the most likely amount method for estimating the amount of consideration the Company expects to receive. These sales incentive estimates are updated each reporting information as additional information becomes available.

The Company also sells custom engineered products and services which are contracts that are typically completed within one quarter but can extend beyond one year in duration. For custom engineered products, the transaction price is based upon the price stated in the contract. The Company generally recognizes revenue for customer engineered products upon satisfaction of its performance obligation under the contract which typically coincides with project completion which is when the products and services are controlled by the customer. Control is typically achieved at the later of when legal title and significant risk and rewards have transferred to the customer or the customer has accepted the asset. These contracts often require either up front or installment payments. These types of contracts are generally accounted for as one performance obligation as the products and services are not separately identifiable. The promised services (such as inspection, commissioning, and installation) are essential in order for the delivered product to operate as intended on the customer's site and the services are therefore highly interrelated with product functionality. Further, the Company determined that while there is no alternative use for most custom engineered products, the Company does not have an enforceable right to payment (which must include a reasonable profit margin) for performance completed to date in order to meet the over time revenue recognition criteria. Therefore, the total contract price is recognized at a point in time (when the contract is complete). Variable consideration has not been identified as a significant component of transaction price for custom engineered products and services.

Sales and other taxes collected with revenue are excluded from revenue, consistent with the previous revenue standard. Shipping and handling costs incurred prior to shipment are considered activities required to fulfill the Company’s promise to transfer goods, and do not qualify as a separate performance obligation. Additionally, the Company offers standard warranties which are typically 12 months in duration for standard products and 24 to 36 months for custom engineered products. These types of warranties are included in the purchase price of the product and are deemed to be assurance-type warranties which are not accounted for as a separate performance obligation. Other performance obligations included in a contract (such as drawings, owner’s manuals, and training services) are immaterial in the context of the contract and are not recognized as a separate performance obligation.

Reconciliation of contract balances

The Company records a contract liability when cash is received prior to recording revenue. Some standard contracts require a down payment while most custom engineered contracts require installment payments. Installment payments for the custom engineered contracts typically require a portion due at inception while the remaining payments are due upon completion of certain performance milestones. For both types of contracts, these contract liabilities, referred to as customer advances, are recorded at the time payment is received and are included in Accrued liabilities on the Condensed Consolidated Balance Sheets. When the related performance obligation is satisfied and revenue is recognized, the contract liability is released into income.

The following table illustrates the balance and related activity for customer advances in the nine months ending December 31, 2018 (in thousands):

Customer advances (contract liabilities)		
March 31, 2018, beginning balance	15,909	
Additional customer advances received	32,552	
Revenue recognized from customer advances	(36,024	)
Other (1)	(1,081	)
December 31, 2018, ending balance	$ 11,356	

(1) Other includes the impact of foreign currency translation

As of December 31, 2018, recognized revenue prior to the right to invoice the customer in accordance with the contract terms was not material. As such, there are no material contract asset balances, which represent revenue in excess of billings, as of the date of adoption of ASC 606 or as of December 31, 2018.

Disaggregated revenue

In accordance with ASC 606, the Company is required to disaggregate revenue into categories that depict how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows. The following table illustrates the disaggregation of revenue by product grouping for the three and nine months ending December 31, 2018 (in thousands):

Net Sales by Product Grouping	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2018
Industrial Products	$92,073	$287,809
Crane Solutions	$93,190	$280,333
Engineered Products	$23,512	$61,659
All other	$8,640	$29,748
Total	$217,415	$659,549

Industrial products include: manual chain hoists, electrical chain hoists, rigging/ clamps, industrial winches, and high capacity hooks. Crane solutions products include: wire rope hoists, drives and controls, crane kits and components, jib cranes, and workstations. Engineered products include: linear and mechanical actuators, lifting tables, rail projects, and actuations systems. The All other product grouping primarily includes: tire shredders, overhead bridge, jib and gantry cranes, and other standard motion control products.

Practical expedients

Incremental costs to obtain a contract incurred by the Company primarily relate to sales commissions for contracts with a duration of one year or less. Therefore, these costs are expensed as incurred and are recorded in Selling Expenses on the Condensed Consolidated Statements of Operations.

Unsatisfied performance obligations for contracts with an expected length of one year or less are not disclosed. Further, revenue from contracts with customers do not include a significant financing component as payment is generally expected within one year from when the performance obligation is controlled by the customer.

4. Fair Value Measurements

FASB ASC Topic 820 “Fair Value Measurements and Disclosures” establishes the standards for reporting financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually). Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

ASC 820-10-35-37 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the valuation techniques that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is separated into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, involving some degree of judgment.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The availability of observable inputs can vary and is affected by a wide variety of factors, including the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date.

The Company primarily uses readily observable market data in conjunction with internally developed discounted cash flow valuation models when valuing its derivative portfolio and, consequently, the fair value of the Company’s derivatives is based on Level 2 inputs. The carrying amount of the Company's annuity contract acquired in connection with the acquisition of Magnetek is recorded at net asset value of the contract and, consequently, its fair value is based on Level 2 inputs and is included in other assets on the Company's Condensed Consolidated Balance Sheets. The carrying value of the Company’s Term Loan and senior debt approximate fair value based on current market interest rates for debt instruments of similar credit standing and, consequently, their fair values are based on Level 2 inputs.

The following table provides information regarding financial assets and liabilities measured or disclosed at fair value (in thousands):

	Fair value measurements at reporting date using			
Description	December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets/(Liabilities) measured at fair value:				
Marketable securities	$6,951	$ 6,951	$—	$ —
Annuity contract	2,255	—	2,255	—
Derivative Assets (Liabilities):				
Foreign exchange contracts	131	—	131	—
Interest rate swap asset	2,869	—	2,869	—
Cross currency swap liability	(22,319)	—	(22,319)	—
Cross currency swap asset	2,408	—	2,408	—
Disclosed at fair value:				
Term loan	$(317,325)	$ —	$(317,325)	$ —

	Fair value measurements at reporting date using			
Description	March 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets/(Liabilities) measured at fair value:				
Marketable securities	$7,673	$ 7,673	$—	$ —
Annuity contract	2,575	—	2,575	—
Derivative assets (liabilities):				
Foreign exchange contracts	107	—	107	—
Interest rate swap asset	3,961	—	3,961	—
Cross currency swap liability	(40,237)	—	(40,237)	—
Cross currency swap asset	2,204	—	2,204	—
Disclosed at fair value:				
Term loan	$(378,504)	$ —	$(378,504)	$ —

The Company does not have any non-financial assets and liabilities that are recognized at fair value on a recurring basis. At December 31, 2018, the Term loan has been recorded at carrying value which approximates fair value.

Market gains, interest, and dividend income on marketable securities are recorded in investment (income) loss. Changes in the fair value of derivatives are recorded in foreign currency exchange (gain) loss or other comprehensive income (loss), to the extent that the derivative qualifies as a hedge under the provisions of ASC Topic 815. Interest and dividend income on marketable securities are measured based upon amounts earned on their respective declaration dates.

During fiscal 2019, the Company terminated certain employees in connection with its overall STAHL CraneSystems ("STAHL") integration plan. For the nine months ended December 31, 2018 the Company incurred $1,602,000 in severance and other employee termination costs, all of which were incurred in the first quarter. The costs incurred were calculated at fair value on a non-recurring basis using Level 3 inputs which included expected payments. Of the severance and other termination costs previously accrued,

$516,000 is unpaid at December 31, 2018 and included within accrued liabilities on the Company's Condensed Consolidated Balance Sheet.

As described in Note 2, the Company has classified the assets and liabilities of certain businesses as held for sale. As a result of this classification during the first quarter of fiscal 2019, the Company determined an indicator of impairment existed and was required to perform an interim goodwill impairment test on the Rest of Products goodwill reporting unit (representing the hoist, chain, forgings, digital power, motion control, manufacturing, and distribution businesses). The net assets of the Rest of Products reporting unit were measured on a non-recurring basis as of May 31, 2018 in order to perform the interim Step 1 goodwill impairment test.

The interim Step 1 goodwill impairment test consisted of determining the fair value of the Rest of Products reporting units on a quantitative basis. The fair value for the Company’s Rest of Products reporting unit cannot be determined using readily available quoted Level 1 inputs or Level 2 inputs that are observable in active markets. Therefore, the Company used a blended discounted cash flow and market-based valuation model to estimate the fair value using Level 3 inputs. To estimate the fair value of the Rest of Products reporting unit, the Company used significant estimates and judgmental factors. The key estimates and factors used in the discounted cash flow valuation include revenue growth rates and profit margins based on internal forecasts, terminal value, and the weighted-average cost of capital used to discount future cash flows.

The compound annual growth rate for revenue during the first five years of the projections was approximately 3.75%. The terminal value was calculated assuming a projected growth rate of 3.0% after five years. The estimated weighted-average cost of capital for the Rest of Products reporting unit was determined to be 11.1% based upon an analysis of similar companies and their debt to equity mix, their related volatility and the size of their market capitalization. The interim Step 1 goodwill impairment test for the Rest of Products reporting unit did not indicate that goodwill was impaired.

The Company is required to record assets and liabilities of its Held for Sale Businesses at the lower of their carrying amount or fair value less cost to sell. For the purposes of this analysis, fair value is based on the estimated selling price of the assets held for sale. Based on this analysis, the Company recorded a $27,753,000 impairment charge on its Held for Sale Businesses during the first nine months of fiscal 2019, of which $16,653,000 was recorded during the three months ended December 31, 2018. The additional impairment charge recorded during the three months ended December 31, 2018 was due to a further reduction in the estimated selling price of the assets held for sale. The impairment charge was offset by a gain on the completed sale of the Company's Tire Shredder business of $1,103,000 as presented on the Condensed Consolidated Statements of Operations and Retained Earnings. Refer to Note 2 for additional details.

Please refer to the 2018 10-K for a full description of the assets and liabilities measured on a non-recurring basis that are included in the Company's March 31, 2018 balance sheet.

5. Inventories

Inventories consisted of the following (in thousands):

	December 31, 2018	March 31, 2018
At cost - FIFO basis:		
Raw materials	$ 92,654	$ 84,492
Work-in-process	38,352	43,140
Finished goods	34,155	40,321

Total at cost FIFO basis	165,161	167,953
LIFO cost less than FIFO cost	(15,445)	(15,067)
Net inventories	$ 149,716	$ 152,886

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management's control, estimated interim results are subject to change in the final year-end LIFO inventory valuation.

Net inventories were reduced $2,258,000 and $6,818,000 at December 31, 2018 as a result of the sale of the Tire Shredder business and the impairment of inventory at the remaining held for sale businesses, both of which occurred during the three months ended December 31, 2018, respectively. Refer to Note 2 for additional details.

6. Marketable Securities and Other Investments

In accordance with ASU 2016-01 “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” adopted by the Company on April 1, 2018, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) are measured at fair value through earnings. There is no longer an available-for-sale classification for equity securities or certain mutual funds (such as bond funds and fixed-income funds) with readily determinable fair values. As such, the Company’s marketable securities (both equity and fixed income securities) are no longer classified as available-for-sale securities. The Company's marketable securities are still recorded at their fair values, however, gains and losses are realized within Investment (income) loss on the Condensed Consolidated Statements of Operations and Retained Earnings. The Company adopted this standard on a modified retrospective basis. A cumulative effect adjustment of $888,000 was recorded on April 1, 2018 to the beginning balance of Retained earnings with an offset to Accumulated other comprehensive loss. The impact on earnings for unrealized gains and losses were losses of $422,000 and $317,000 in the three and nine months ended December 31, 2018.

Consistent with prior periods, the estimated fair value is based on quoted market prices at the balance sheet dates. The cost of securities sold is based on the specific identification method. Interest and dividend income are included in Investment (income) loss in the Condensed Consolidated Statements of Operations and Retained Earnings.

Marketable securities are carried as long-term assets since they are held for the settlement of the Company’s general and product liability insurance claims filed through CM Insurance Company, Inc. ("CMIC"), a wholly owned captive insurance subsidiary. The marketable securities are not available for general working capital purposes.

Net realized gains related to sales of marketable securities were not material in the three and nine months ended December 31, 2017.

The following is a summary of available-for-sale securities at March 31, 2018 (in thousands, prior to the adoption of ASU 2016-01):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities	$ 7,149	$ 588	$ 64	$ 7,673

On December 21, 2017, the Company purchased a 49% ownership interest in Eastern Morris Cranes Company Limited (EMC), a limited liability company organized and existing under the laws and regulations of the Kingdom of Saudi Arabia, for $3,359,000. This represents an equity investment in a strategic customer of STAHL serving the Kingdom of Saudi Arabia. The investment value was increased for the Company's ownership percentage of income earned by EMC during the fiscal year, offset by changes in foreign currency revaluation. Investment income for the Company's ownership interest in EMC was $230,000 and $402,000 in the three and nine months ended December 31, 2018, respectively. The investment's carrying value as of December 31, 2018 was $3,627,000 and has been accounted for as an equity method investment. It is presented in other assets in the Condensed Consolidated Balance Sheets. The December 31, 2018 trade accounts receivable balance due from EMC is $3,277,000 and is comprised of amounts due for the sale of goods and services in the ordinary course of business. The amount in trade accounts payable is not material as of December 31, 2018.

7. Goodwill and Intangible Assets

Goodwill and indefinite lived trademarks are not amortized but are tested for impairment at least annually, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using a discounted cash flow methodology. The Company's reporting units are determined based upon whether discrete financial information is available and reviewed regularly, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the operating segment level as defined under ASC Topic 280-10-50-10 "Segment Reporting - Disclosure." The Company has four reporting units as of December 31, 2018 and March 31, 2018. Only two of the four reporting units carried goodwill at December 31, 2018 and March 31, 2018. The Duff-Norton reporting unit (which designs, manufactures and sources mechanical and electromechanical actuators and rotary unions) had goodwill of $9,636,000 and $9,721,000 at December 31, 2018 and

March 31, 2018, respectively, and the Rest of Products reporting unit (representing the hoist, chain, forgings, digital power, motion control, manufacturing, and distribution businesses) had goodwill of $317,215,000 and $337,713,000 at December 31, 2018 and March 31, 2018, respectively.

Refer to the 2018 10-K for information regarding our annual goodwill and indefinite lived trademark impairment evaluation. Future impairment indicators, such as declines in forecasted cash flows, may cause impairment charges. Impairment charges could be based on such factors as the Company's stock price, forecasted cash flows, assumptions used, control premiums or other variables.

As described in Note 2, the Company has classified the assets and liabilities of certain businesses as held for sale. As a result of this classification during fiscal 2019 the Company determined an indicator of impairment existed and was required to perform an interim goodwill impairment test on the Rest of Products goodwill reporting unit. This analysis was performed during the first quarter of fiscal 2019. The net assets of the Rest of Products reporting unit were measured on a non-recurring basis in order to perform a Step 1 goodwill impairment test. The interim Step 1 goodwill impairment test for Rest of Products did not indicate that goodwill was impaired.

The Company is required to record assets and liabilities of its Held for Sale Businesses at the lower of their carrying amount or fair value less cost to sell. Based on this analysis, the Company recorded a $27,753,000 impairment charge on its Held for Sale Businesses during the nine months ended December 31, 2018, of which $6,174,000 was recorded as a reduction to goodwill during the first quarter of fiscal 2019. No additional reduction to goodwill was recorded during the third quarter.

A summary of changes in goodwill during the nine months ended December 31, 2018 is as follows (in thousands):

Balance at April 1, 2018	$347,434
Held for Sale Impairment (see Note 2)	(6,174)
Currency translation	(14,409)
Balance at December 31, 2018	$326,851

Goodwill is recognized net of accumulated impairment losses of $113,174,000 and $107,000,000 as of December 31, 2018 and March 31, 2018, respectively. The increase at December 31, 2018 relates to the assets held for sale as described above.

Identifiable intangible assets acquired in a business combination are amortized over their estimated useful lives. Identifiable intangible assets are summarized as follows (in thousands):

December 31,
2018